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Japan Planning New Trade Steps After United States Sets Deadline for Market-Access Action

Exasperated by Tokyo's apparent intransigence on market-access issues of high priority to the United States, Reagan administration trade policymakers have recently been warning the Japanese government in increasingly tougher language that time is running out for action on the trade-liberalization front. Deputy United States Trade Representative David Macdonald underscored this message at the fourth meeting of the U.S.-Japan trade subcommittee, held in Tokyo December 3 and 4, by asking the Japanese government to indicate by specified but undisclosed dates how it intends to respond on a long list of U.S.-identified market-access problems. Japan's answers will have a significant impact on the administration's trade-policy direction, Mr. Macdonald cautioned Ryohei Murata, director general of the Ministry of Foreign Affairs' Economic Affairs Bureau and the top Japanese representative at the talks.

Undersecretary of State for Economic Affairs Allen Wallis delivered a similar message to Tokyo when he and other American subcabinet-level officials met with their Japanese counterparts December 6 and 7 to discuss bilateral and global economic issues. These latest U.S. warnings apparently hit home. Following the two meetings, Prime Minister Yasuhiro Nakasone told his Cabinet to come up with a new set of trade-liberalization measures before he visits Washington in mid-January. Even Japanese observers acknowledge, however, that the concessions currently under consideration in Tokyo fall far short of the Reagan administration's demands for expanded access to the Japanese market.

Certain to be on the list of new market-access measures are tariff cuts on 38 agricultural products not included in the May trade-liberalization package. Japan is also expected to offer increased quotas for tomato juice, tomato ketchup and tomato sauce, fruit purees, non-citrus juices, peanuts and dried peas and beans, thereby heading off a U.S. threat to file a complaint with the General Agreement on Tariffs and Trade over these items. Some Japanese government officials have been floating the possibility of a reduction in the 35-percent duty on cigarettes, but the strong opposition of the Finance Ministry and the Japan Tobacco and Salt Public Corp. to such a move make this step a highly questionable candidate for inclusion on the new market-access list. Even more unlikely are concessions on beef and citrus, probably the Reagan administration's top priority, if recent statements by Agriculture, Forestry and Fisheries Minister Iwazo Kaneko and Economic Planning Agency Director General Jun Shiozaki, charged with mapping out the additional trade-liberalization steps, are taken at face value.

Susan MacKnight

House Passage of Domestic-Content Bill Appears Certain

At JEI presstime, consideration of H.R. 5133, the automotive domestic-content bill, had already begun on the House floor and observers expect it to pass before Congress adjourns on December 17. Although the Senate Commerce Committee was scheduled to hold hearings on December 16 on the Senate companion bill (S. 2300), its chances of passing this chamber are not good. The bleak economic outlook, however, suggests that protectionist sentiments will carry over to the 98th Congress and that legislation along the lines of H.R. 5133, perhaps applicable to other import-vulnerable industries as well, will re-surface very early in 1983. At a recent trade seminar, Senate Finance Committee chairman Robert Dole (R, Kans.) predicted that a full-scale debate on automotive domestic-content requirements would begin soon after the new Congress convenes.

After an unusually lengthy debate on H.R. 5133, the House Rules Committee granted the bill an "open rule," which means that any and all amendments would be considered during floor debate. Additionally, the Energy and Commerce Committee and the Ways and Means Committee were each granted one hour of general debate on the measure, divided equally between majority and minority committee members.

One of the main themes of the proponents has been that passage of the bill is imperative to send a "meaningful signal" to Japan that it must open its markets to sectors in which the United States is a competitive exporter. Another point is the alleged "jobs creation" aspect of the legislation, not only for auto workers but for those engaged in supplier industries as well. "H.R. 5133 will put thousands of Americans back to work," Rep. John Dingell (D, Mich.) told the House Rules Committee. "It is a fair and balanced response to current problems in the world automobile industry. . . . The only major open market in the world for motor vehicles is the United States, and we have become victims of the Japanese 'export economy', . . . which provides for worker security in Japan. . . and unemployment in the United States." Opponents of automotive domestic-content requirements, on the other hand, warned that passage of the bill would spark foreign retaliation. Rep. William Dannemeyer (R, Calif.) also pointed out that H.R. 5133 would not create jobs, but would instead transfer them. "If this bill is enacted into law," Rep. Dannemeyer argued, "Americans whose jobs relate to auto imports, such as longshoremen and import auto dealership employees, would be lost."

The House began consideration of H.R. 5133 on December 9 and has already disposed of one amendment. Rep. Sam Stratton (D, N.Y.) proposed that language be inserted that called on the Secretary of Transportation to conduct a study after three

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years to determine whether the content requirements had a negative impact on foreign investment in the United States or on importers with existing domestic operations. This amendment was overwhelmingly defeated; free traders did not want it to be construed as "legitimizing" H.R. 5133 and proponents did not want to risk the possibility of the program being dismantled after 1986.

There are rumored to be at least a dozen other amendments to be considered before the final vote. Among them are Rep. Bill Frenzel's (R, Minn.) proposal, allowing the President to suspend the domestic-content requirements if they violate the General Agreement on Tariffs and Trade, and Rep. Clarence Brown's (R, Ohio) move to protect importers such as Honda Motor Co., Ltd. and Nissan Motor Co., Ltd. that have already established domestic operations. The Ohio Republican's alternative would, in effect, give these foreign producers a longer phase-in period before they would have to meet the maximum 90-percent domestic-content level.

The administration has steadfastly opposed H.R. 5133. During a recent U.S. Chamber of Commerce seminar, United States Trade Representative William Brock maintained that the chance of foreign retaliation is "100 percent" if Washington implements such restrictive legislation.

Barbara Wanner

Nakasone Cabinet Outlines Economic Policy

Addressing a special session of the Diet on December 3, Prime Minister Yasuhiro Nakasone stressed his commitment to continued government efforts to address the issues of government administrative reform, fiscal reconstruction, economic recovery and international trade problems. Referring to the July recommendations of the Government Administrative Reform Commission, he said that he had submitted to the Diet draft legislation to establish a commission to restructure the Japanese National Railways. While he also added that he intended to reduce government spending, he did not refer to the question of private ownership of the Nippon Telegraph and Telephone Public Corp. and the Japan Tobacco and Salt Public Corp. — both targeted for reform under recommendations previously submitted.

On the fiscal situation, Mr. Nakasone indicated that outstanding deficit-financing bond issues would reach ¥90 trillion ($367.4 billion at current exchange rates) by the end of FY 1982, and confirmed the government's intention to issue new bonds despite efforts to raise revenues and reduce expenditures. The Prime Minister admitted that it would be difficult to balance the budget by FY 1984, as his predecessor, Zenko Suzuki, had hoped. He said, however, that he is determined to slash government spending and would direct government agencies to submit budgets for FY 1983 at this year's levels. As yet, Mr. Nakasone has not called for a tax increase, and it remains to be seen whether he can achieve fiscal reconstruction without such a measure.

Thus far, the economy remains sluggish. Real (inflation-adjusted) growth in the July-September quarter was down to 2.4 percent at an annual rate, compared to the revised April-June quarter high of 8.0 percent. Mr. Nakasone noted, however, that his administration would seek to expand domestic demand and implement policies for depressed industries. He also referred to the five-year economic plan, which he said would consider both the country's economic future and its social development.

The most important issue, the Prime Minister acknowledged, is Japan's response to the rising tide of protectionist pressures. Insisting that the country would make every effort to contribute to the maintenance of the free-trade system, he stressed the

importance of a strong relationship with the United States. Absent from this address was any mention of specific measures to achieve these goals, but Mr. Nakasone has said that he will present more concrete recommendations in his second policy speech to the Diet in January.

Yoshio Nakamura

Japanese Views of the Nakasone Cabinet

Prime Minister Yasuhiro Nakasone's Cabinet appointments have drawn sharp criticism from the Japanese press, which has attacked the selections as directly under the control of the Tanaka faction. Former Prime Minister Kakuei Tanaka, whose support guaranteed Mr. Nakasone's election, is a defendant in the Lockheed trial, and it is widely assumed that he is anxious to minimize political damage should he be found guilty. In defending his choices, the new Prime Minister urged the public to judge the Cabinet in terms of its achievements rather than on the basis of hearsay.

Reaction from the business community has been more positive; the Cabinet is considered competent and seasoned. Some observers have remarked on the fact that three key economic posts -- the Finance Minister, the Minister of International Trade and Industry (MITI) and the Economic Planning Agency Director General -- went to tax experts, suggesting that the government's budget difficulties will take priority in this administration.

Finance Minister Noboru Takeshita, who held the same post in the Ohira Cabinet, will have to evaluate the Suzuki Cabinet's approach to resolving the budget deficit without calling for a tax increase. The Economic Planning Agency's Director General, Jun Shiozaki, is a career Finance Ministry official who has been active in the tax field for 20 years. MITI Minister Sadanori Yamanaka has been chairman of the Liberal Democratic Party's (LDP) tax committee, and while he has not been active on international trade issues recently, his outspoken style and the fact that his district is not affected by agricultural imports has generated expectations that he might be effective in international negotiations.

Shigeo Nagano, chairman of the Japan Chamber of Commerce, recently told Chuo Koron Monthly that the business community felt that since a clear majority of LDP members supported Mr. Nakasone, he could be a strong leader. Mr. Nagano listed five goals for the new leadership: political stability, reform of the government structure, control over the deficit, small-business assistance measures, and a strategy to maintain free trade.

There is widespread concern about the country's economic performance. Both exports and imports have been declining, unemployment is at a postwar high, domestic demand is stagnant, and the dramatic revenue shortfall does not suggest a simple resolution. Finance Ministry officials have already talked about a zero-growth budget for the next fiscal year. The present debate centers on the government's economic management. It has been suggested that a stimulative economic policy should be the first step, but there is no agreement among officials. If tax increases are being considered -- a politically explosive issue, that policy can be expected to be the focus of attention in the near future.

The Prime Minister has long supported an increased defense role for Japan, and has gone so far as to suggest that the constitution should be amended -- a proposition which drew the ire of the opposition in Diet hearings. Mr. Nakasone did say that "for the time

being," he does not think the amendment is necessary. But the issue, on which political parties are sharply divided, is certain to be used by the opposition.

There is strong suspicion in the press that Mr. Nakasone might propel the nation into a more active defense role. His reputation for flexibility has prompted a closer look at his past. Professor Kenzo Uchida of Hosei University, writing in Chuo Koron, concluded that the Prime Minister has long been attracted to a strong nationalism. In 1947, Mr. Nakasone founded Seiun-juku, which advocated an independent nation with Asian-style democracy. At the thirtieth anniversary of this group in 1977, he urged the government to take the initiative in both domestic and foreign policies and, as recently as 1982, advocated a return to the principles of Seiun-juku.

According to a recent Asahi Shimbun poll, an equal number of respondents (37 percent) supported and opposed the new Cabinet, while 26 percent said they were undecided. At the same time, a high 54 percent supported the Liberal Democratic Party. Whether or not this mood carries over to the new year when major political decisions must be made depends on Mr. Nakasone's political skills.

Fumiko Mori

Japan's Unemployment at a Postwar High

Unemployment rose in Japan to 1.39 million in October, putting 2.5 percent of the country's employees out of work -- one of the highest figures in the postwar period. Compared with the same month of last year, there was a 9-percent increase in male unemployment and a 20-percent increase in the number of unemployed women. Because the definition of unemployment is stricter in Japan than in the United States, economists point out that the 2.5 percent would be at least twice as high if Japan used the same method as the United States.

The unemployment figures had been inching up from November 1981 to June 1982. There was a brief halt in July and August, but the outlook has worsened since summer. At the same time, of the total workforce in October (57 million), the number of new entrants (280,000 males and 450,000 females) was higher than at any time this year.

As a consequence of the slump in trade, employment in export-oriented industries is down. Output cuts have been ordered in precision machinery, transportation equipment, consumer electronics and steel. In addition to production cutbacks, some manufacturing and trading companies have announced plans to reduce the number of employees through early retirement, relocations and layoffs. In the transportation sector, a decline in blue-collar employees was reported for the first time in the recent past. The Labor Ministry has pointed out that in addition to the worldwide economic slowdown, various import restrictions have affected this sector.

Moreover, the traditional semiannual bonus, which ranges from two to three months' salary and is an established practice for almost all employees in Japan, is expected to be unusually low this year. A Nihon Keizai Shimbun survey of 700 major companies revealed that the increase would be less than 3 percent, averaging ¥534,000 ($2,180 at current exchange rates). Although total bonus payments in the government and private sector are expected to be about ¥15 trillion ($61.2 billion), the Economic Planning Agency is pessimistic about their stimulative impact on the economy since the inflation rate is close to 3 percent.

Fumiko Mori

Senate Subcommittee Considers Wolfowitz Nomination

The Senate Foreign Relations East Asian and Pacific Affairs Subcommittee last week considered the nomination of Paul D. Wolfowitz for the position of Assistant Secretary of State for East Asian and Pacific Affairs. Dr. Wolfowitz, who is currently the director of policy planning at the State Department, received the government's Distinguished Honor Award during his tenure at the Arms Control and Disarmament Agency and the Civilian Service Medal for his service in the office of the Secretary of Defense. At the conclusion of the hearing, subcommittee chairman S.I. Hayakawa (R, Calif.) declared that he would recommend that Dr. Wolfowitz's nomination be favorably reported to the Senate floor before final adjournment.

Questions on U.S.-Japan relations focused on the adequacy of Tokyo's defense effort. Responding to Senator Jesse Helms' (R, N.C.) remark that of all the United States' allies, Japan contributes the least to the common defense of the free world, the nominee stressed that Tokyo has played an "enormously supportive role" in Asia and globally in the area of economic assistance. "The United States should push [Japan] hard to fulfill its global responsibilities, . . . [and it appears] its next medium-term defense plan will make a very real contribution to mutual defense," he told the North Carolina Republican. "But our goal is to get [the Japanese] to reach these levels sooner, rather than later." The prospective assistant secretary also rejected Senator Helms' proposition that the bilateral defense treaty should be revised, contending that this pact as it currently stands provides a sound framework that was developed largely with U.S. guidance. "Japan can do more within the confines of the treaty," he maintained. "We only disagree on the pace [of Japan's defense improvements], not what's being done under [the treaty]."

Senator Hayakawa inquired about the nominee's views on the proposal introduced by Senator Carl Levin (D, Mich.), calling on the Japanese government to spend at least 1 percent of its GNP on defense. Mr. Wolfowitz had no objections to the "spirit of the resolution," but maintained that if the two countries were to achieve their common defense goals, it would be far more effective for the United States to make its position in private, while remaining publicly quiet about a matter that is so politically sensitive for our chief Asian ally.

Barbara Wanner

Tokyo Stock Market Hits New High

The Dow Jones average for the first section of the Tokyo stock exchange hit a record high of 8,020.53 on December 6, lagging slightly behind the strong gains shown on the New York and London stock-exchange markets in November. The Tokyo Dow Jones average finished at 7,938 at the end of January 1982, but dropped in the face of the yen's weakness to its lowest level of the year -- 6,849 -- on October 1. Thereafter it picked up, soaring by more than 1,000 points in November to the December 6 peak, surpassing the previous high of 8,019.14 hit on August 17, 1981.

While the Tokyo stock market has been booming, corporate performance has not been as impressive. Buffeted by the worldwide recession and the yen's depreciation, pre-tax profits in the first half of fiscal 1982 (April-September) dropped by about 20 percent from the previous six-month period and are likely to remain flat until the end of the fiscal year. Given the severity of the slump, pre-tax profits for fiscal 1982 as a whole are forecast to be down by over 19 percent from the previous year, according to a recent survey by Nihon Keizai Shimbun.

The spurt in the Tokyo stock market has been attributed to monetary factors, including a decline in interest rates and foreign exchange fluctuations, both of which stimulated purchases by foreign investors. The inflow of foreign capital last year consisted of petrodollars, but present investments represent funds from American and European institutional investors. In addition to anticipated gains from the rising yen, these buyers expect capital gains as stable Japanese companies resume their growth. Foreign investors were net sellers for the five months from February to June because of the yen's depreciation and the weak economy, but became net purchasers in September and bought ¥192.4 billion ($785.3 million at current exchange rates) in the month of November.

Owing to recent interest-rate declines and expectations of further monetary relaxation, worldwide stock prices have increased sharply. In Japan, predictions of cuts in short-term and long-term interest rates are widespread. Because the large budget deficits preclude fiscal-policy adjustments, the new Nakasone Cabinet is expected to prefer a relaxation of monetary policy. Though demand by domestic buyers has been weak, the combination of purchases by foreign investors and expectations of a stimulative monetary policy is likely to spur domestic purchases. At the same time, the current strong stock market depends on the positive reaction of foreign investors and expectations of a revival of growth. If the boom is to continue in the new year, the government will have to show some progress in reviving economic activity.

Yoshio Nakamura

Notes

• By unanimous consent, the Senate Foreign Relations Committee on December 14 reported S.Con.Res. 46, introduced by Senator Carl Levin (D, Mich.). This bill, as originally drafted, would have called on the government of Japan to spend at least 1 percent of its GNP on defense. The committee version, however, states that Japan should immediately increase its defense expenditures to the levels required for its forces to deploy fully by 1990 an effective conventional self-defense capability, including the capacity to carry out the 1981 policy enunciated by Prime Minister Suzuki to defend its sealanes to 1,000 nautical miles. Committee staff estimate that between now and the end of the decade, Japan would have to spend between 1.4 and 2 percent of its GNP on defense, which translates into annual real increases of between 10 and 12 percent.

• Japan's general beef import quota for the second half of FY 1982 (October 1982-March 1983) has been set at 57,200 metric tons, or 6,200 metric tons more than the quantity announced for the year-earlier period, while its special beef quota has been maintained at the 7,800-metric-ton level. These quota quantities mean that the Japanese government will fulfill the commitment it made during the Tokyo Round of multilateral trade negotiations to import 135,000 metric tons of beef in FY 1982.

Japan's Beef Import Quota

(in metric tons)

	General Quota				
	First Half	Second Half	Subtotal	Special Quota	Total
FY 1977	35,000	45,000	80,000	12,500	92,500
FY 1978	40,000	55,000	95,000	17,000	112,000
FY 1979	63,000	53,500	116,500	18,000	134,500
FY 1980	64,000	55,000	119,000	15,800	134,800
FY 1981	60,000	51,000	111,000	15,800	126,800
FY 1982	62,000	57,200	119,200	15,800	135,000